

FUNDING SOURCES AND FINANCING MECHANISMS

In response to the presentations on airport funding needs made by representatives of various aviation organizations, a panel of experts on airport funding and financing offered their views on how airport capital requirements might be met. This panel, chaired by David L. Lewis of Hickling Lewis Brod, Inc. was made up of Richard R. Mudge of Apogee Research, Inc.; Michael Lexton of Lehman Brothers; and William Reed of Booz, Allen & Hamilton. Their comments and the ensuing general discussion are summarized below.

*Richard R. Mudge
Apogee Research, Inc.*

Issues of Needs and Finance

First let me give you three general comments and reactions to the issues of needs and finance. In the short time available I can give only a brief outline of the history and background of what is happening in finance across all airport infrastructure. Afterward I will give my view of the lessons that can be drawn for airport finance.

Let me start with one thing I believe which shows my bias as an economist. I believe there is a link between economics and finance. If you understand who benefits, you will learn a lot about who may pay. I do not like the word, "needs". It is an awkward word at best. It is probably a biological concept. It does not really tell you much about finance. It also tends to have a bit of an engineering orientation that does not really tell what will happen if capital investments are not made. It does not tell what we lose if we do not do this or that. The world we live in is made up of tradeoffs.

The term I like better is, "demand." That has a market orientation. It gives a better sense of why we might want to build these things. It also has some political connotations. It also says a lot about how we might finance it. If there is demand, we can start to look at the market and financial resources. The term "demand" suggests there is not a universal answer to how we are going to finance these investments.

My second general comment, and this certainly relates to finance, is that we are in the midst of what could be called an evolution in how we finance public works. Evolution may be too strong a word, but it is certain we are in the midst of a big change in public financing. If we look backward, we are not going to find the answers to what we should do in the future.

As an economist, I find it more fun looking backward because the data are better. The models now

used in public works (transportation, waste water treatment or other forms of infrastructure) are not the same as those used 20 years ago. We need to think about how we can take advantage of new creative solutions that are being explored. This could lead to a revolution in how we do financial planning.

Finally, it is important when we discuss finance to be careful about terminology. I think of finance in two ways, both of which are needed to have a financial plan. One is a source of money. Second, you need a financial mechanism. The two can be easily confused. Some of the presentations here today mixed the two together. They are quite different. For example, the source of funds for the AIP program is the ticket tax. That is the money coming in. The mechanism is to give out grants to airports.

If you look at the bond market, which is obviously a very important part of airport finance, the source of financing could be PFCs, it could be landing fees, it could be a whole series of different user fees. That is the source of revenue. The financial mechanism is a way of reverting money over 20 years into a lump of money to spend now. We need to think about new sources of funds and innovative ways of financing.

We are not going to discover brand new sources of money. The money will come from where it always has—from airport users and other beneficiaries. What we need to do is look at new financial mechanisms, new ways to leverage funds and in some cases, to encourage more contributions from users and beneficiaries.

New Financial Mechanisms

First, there is no single answer. That is fairly obvious. It is important to define problems more precisely. A lot of the needs studies have concentrated on airports by size class. They may look at questions such as safety versus capacity expansion. A more useful way of looking at needs may be to consider the actual thing we are building: airfield versus terminal, parking versus access, etc. That type of breakdown is closer to the market, closer to who is benefiting. This will shed more light on how we might finance it.

The second major change is private finance. More and more of the financing being done looks at benefits from a particular practice. This is important, both for education and for its practicality in generating money for projects.

The third trend is what I call the layered look. This is especially true for large projects. There is no single answer. User fees may come from half a dozen different

places. Federal funds are being combined with private money and distributed by three or four different types of financial mechanisms. It makes life more complicated, but there is no simple way of carrying out complex projects..

Finally there is creativity. People are coming up with truly revolutionary ideas. No one is doing things the way we did 20 years ago. And I think if we are going to generate creativity, there are several things which should not be done. One thing is not to rely too heavily on consultants' reports, as hard as that is for me to say.

Secondly, you will not get results from looking backwards. I think the best course is to encourage creativity at the non-federal level. There are 50 states and numerous public agencies. If there is a way to open up options and opportunities at the individual airport level, the state agencies are the places to search for fresh and innovative ideas, even though some of the ideas may not be viable. Then the problem will be how to work them into a program.

Experience in Other Modes of Transportation and Public Works

Finally, I would like to offer some comments on financing from other modes of transportation and public works. The reason for looking at these examples is not to copy them; every sector is quite different. However, I is important to remember that other modes of transportation or public works are under the same set of pressures and, in some cases, have already been through worse battles than aviation will go through. I agree with what others here have said. The field of airport finance works a lot better than most other parts of transportation infrastructure.

One of the first revolutions was in waste water treatment, where the Federal Government basically got out of the business. The government converted all federal grant programs for waste water treatment facilities into the capitalization programs of state revolving funds. Basically, the government told every single state you are now in charge; we will give you money which you can loan for your own waste water treatment facilities. But we are going out of the business. As a result, our sewer systems are now largely financed by user fees, and in many cases by financing through revenue bonds or by locally funded state institutions. This was a very dramatic change.

In 1991, ISTEA gave great flexibility and freedom to state DOTs in how they could use federal funds and convert grants to loans. This allowed states to do things in different ways with the private sector. Basically, nothing happened in the first two or three years. It was hard to get people to do things differently.

When Jane Garvey came in a Deputy Administrator of the Federal Highway Administration (FHWA), she

basically said that the Federal Government may be the problem. Perhaps we have too many restrictions and, unknowingly, are not encouraging innovation. She took advantage of a legal loophole and told her staff that FHWA will not say "no" to any idea that comes out of state DOTs. She had one proviso: "I don't want to go to jail." That brought out a lot of new ideas. Some were not particularly useful. Some were related purely to cash flow. A few, however, did involve ways of encouraging additional funds from beneficiaries—and that is the key.

To go back to what I said earlier about sources of funds and financial mechanisms, the financial mechanisms are interesting to play around with. They get a lot of attention by the investment bankers and people—some to stimulate financial actions and some to obtain additional money from beneficiaries. What happened in the case of the highways is that FHWA and state DOTs have been able to go out and generate more money from beneficiaries. Private firms will donate land for certain facilities. FHWA has agreed to count this as a match for federal funds.

There are a number of places where the business community, local townships, or a particular firm has said it would like to have an interchange, a stretch of highway, or some other facility built, and they have been willing to put up money to help the project along. These are direct user fees. It requires an openness in a different way of accounting.

Another innovation is something called state infrastructure banks, which like anything with a grand and glorious name may be over-hyped. On the other hand, they have proved to be institutions that can make very attractive loans. There is high risk in the earlier stages of any project. What an infrastructure bank can do is make a loan that is junior to the bonds that are sold by larger lending institutions.

State infrastructure banks do not require borrowers to pay money back until five years after the project is opened. Thus, in the first year where there is high risk, all the money goes to pay off the revenue bonds. Also, borrowers do not have to use reserve bonds like PFCs. Every single dollar the borrower has can be leveraged to actually build the project.

There are also ways of reducing the short-term costs on the traveling public. They are not free. The public sector is paying part of the subsidy. Concepts like this could be useful for certain parts of airports; access roads and parking facilities fit this nicely.

It is important to look at what has worked and what has not and to identify those that may work at airports.

When talking to people in state DOTs, it is apparent they are thinking about projects in a very, very different way. They are thinking about who benefits, how to get money from those people, and how to leverage funds and get projects built sooner.

Airports are way ahead of the rest of the transportation sector, especially at the larger airports that have long turned to the bond market for funds. They already have that orientation, they have experience, and they have an established access to the bond market.

*Michael Lexton
Lehman Brothers*

I agree with Mr. Mudge about using the word, "needs". It sounds to me like something my son says when he wants a cookie. I am a big supporter of markets and market demand. Demand is the reason we are here. It is the reason airports exist. It is the reason airlines exist. All are seeking to meet a particular demand—the demand of passengers and shippers of goods wanting to get from place to place. What the aviation industry is trying to do is find the most efficient way of meeting those demands.

Mr. Mudge also mentioned examples of lessons learned from highways and other types of infrastructure projects with respect to innovative finance. As a caveat, we should note that airports are fundamentally different from other forms of infrastructure. What drives an airport is the demand for people to get to that particular city or for shippers of goods to get goods to that particular city. Because that demand is fairly high, traffic grows over time. As a result, airports expand and airlines order more aircraft. All of this means that airports, on their own, are fundamentally good credits. People are comfortable with the ability of an airport to generate revenues, both from the airlines and—more recently—from nonairline revenues such as concession revenues and retail sales. There really is not a lack of funding. We have to be careful about that point. The key issue is probably not needs or demand. It is not necessarily where the funds are going to come from. It is ultimately going to be the allocation of who pays. That is really the issue. The money is there; it is just a matter of who is going to pay for it and how big is their share.

Several speakers today have mentioned the word, partnership. I personally am a big believer in partnership. The Federal Government, the airlines, local communities, and fare-paying customers all need to be in a partnership in order to ensure that demand is met and that required new facilities can be built. It is a matter of allocating various responsibilities within the partnership. The solution is not simply to raise airline landing fees or passenger ticket taxes. There has to be a strong working partnership of airlines, airports, and the Federal Government.

In terms of innovative financing methods and the ability of the Federal Government to participate in them, there are probably mechanisms to accomplish that. But

for the most part, innovative financing is a term that is used for allocation of funding more than anything else.

Privatization is an answer that many people think will solve the problem. We are currently working on a few airport privatizations, or what one might call quasi-privatizations. Public-private partnership is actually my preferred term for these types of projects because the public asset is always an important asset in the background of any part of these privatizations. But it's clear that airports cannot take the projects that they think aren't going to work and shunt them off to the private sector. This has been tried in public transit for about a dozen years, and I do not think we have seen a single privatization project work in the transit field.

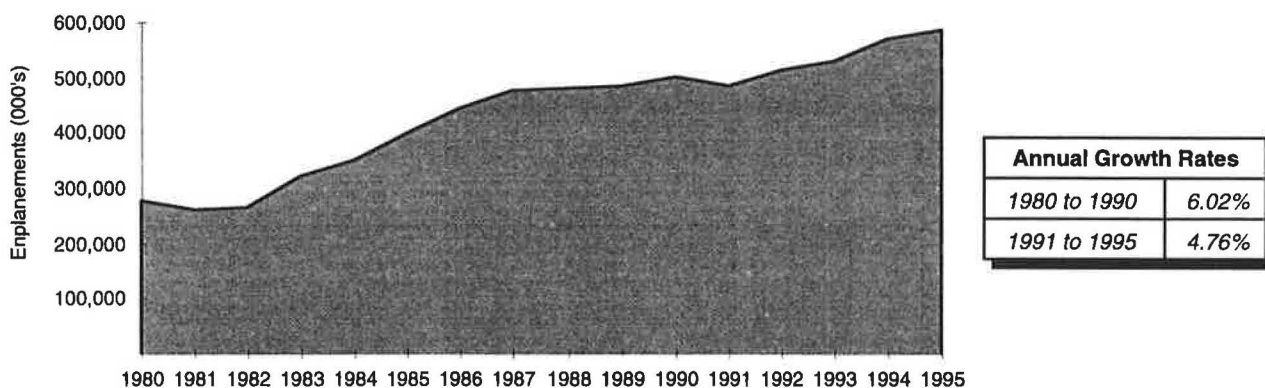
The concept of partnership ties into the whole question of whose airport is it anyway? And the local community will stake claim to the airport because it provides service to the people who live there. The Federal Government will lay claim to the airport because they have to ensure that safety and other requirements are met. The airlines will lay claim to the airport because their feeling is that they are the ones really paying for the use of the facility.

It's an age-old debate. We have seen airport funding, airport bonds, and the financing mechanisms for those bonds evolve over time since the mid-1950s when bonds were first issued on behalf of airports. At that time airport sponsors felt that the airlines were absolutely essential. And as a result, the airlines gained a substantial amount of control through their use and lease agreements. Over time, depending on the airport, the struggle for control has gone back and forth between air carriers and airport sponsors. In my experience, projects where there has been a high degree of cooperation between airlines and airports, have been the most successful. Detroit is an example that provides a case study.

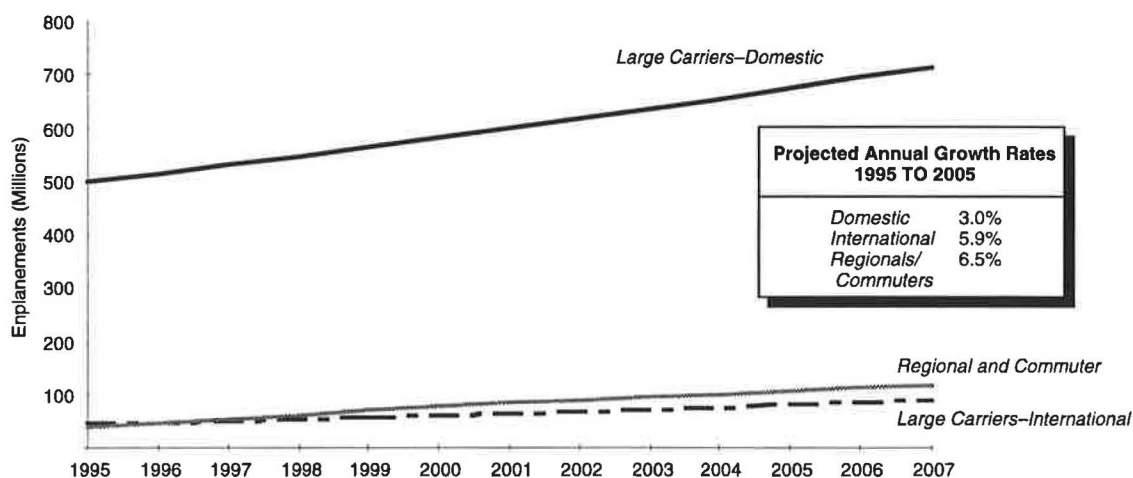
We in the financial community believe that plenty of money is available for airport projects. There are a lot of people who want to invest in airports. This is not just the purchase of airport bonds. We are now seeing people taking ownership shares and equity in airport projects. There may not be so much here in the United States as overseas. But even here in the United States this seems to be where airport funding is heading.

*William Reed
Booz, Allen and Hamilton*

There are four key messages I would like to get out on the table. The first is that there are different answers for different types of airports. The earlier comments by David Plavin of ACI and Spencer Dickerson of AAAE focused on this point. It is obvious and very important.



Source: Federal Aviation Administration
 FIGURE 1 Total U.S. enplanements, 1980-1995.



Source: Federal Aviation Administration
 FIGURE 2 U.S. air carrier passenger enplanements.

Second, increasing the PFC to a \$5 level just does not do it. We should not hang our hat on solving the problem with a \$5 PFC.

Third, airports have access to very good financing. We should not lose sight of that. Bonds are an excellent mechanism in the tax-exempt marketplace.

My final thought is that the user pays. This is obvious. We need to focus on how to get the user to pay and who the user is. This is really the crux of the whole funding dilemma.

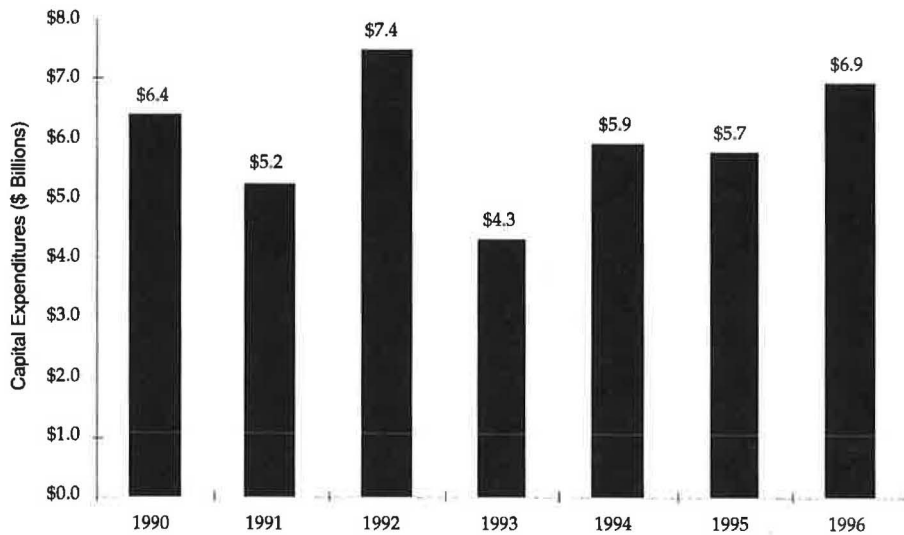
Background

Aviation in the United States has grown dramatically over the past two decades. Passenger enplanements, now nearing 600 million per year, are double the 1980 level. (Figure 1) This

growth has been fueled by deregulation, and the hub-and-spoke system, and a brisk economy.

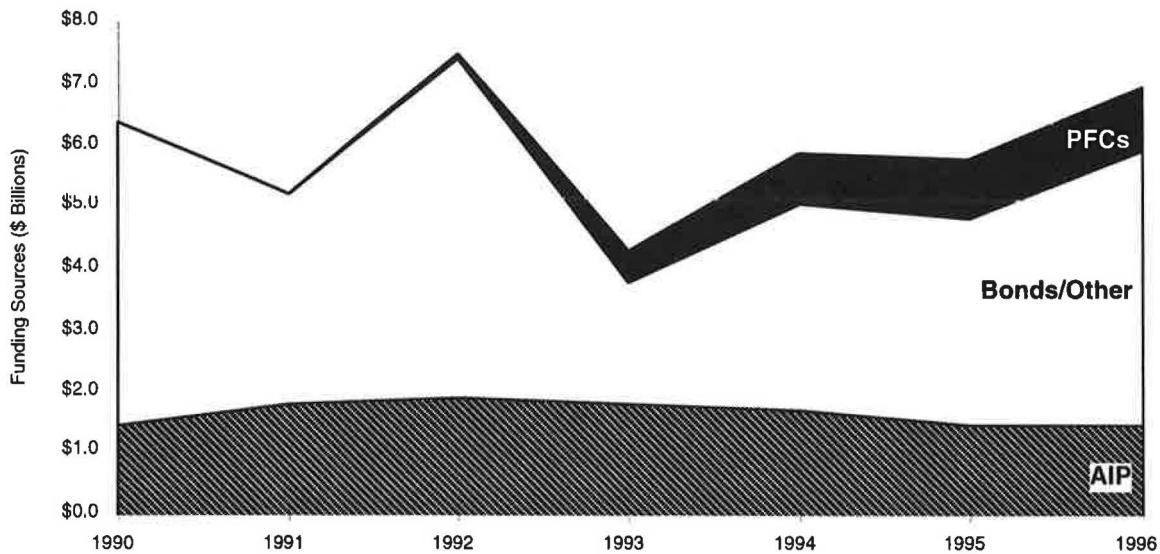
FAA forecasts for 1995-2005 indicate domestic airline passenger growth at about 3 percent. International traffic is expected to increase at about 5.9 percent. Regional carriers will grow at about 6.5 percent. Basically, the expectation is that we are going to have continued rise in demand and a need for more airport capacity. (Figure 2)

The growth of enplanements has spurred capital investment in airport infrastructure—to meet existing demand, as well as planning for future needs—at an average rate of \$6 billion per year. (Figure 3) This is built up from looking at FAA grants and bonds sold. By bonds sold, I mean the total project costs (including financing costs and architectural and engineering fees). It is the all-inclusive cost. It also includes airport funds and (in the latter years) PFCs.



Source: ACI 1996 Capital Needs Survey, FAA Financial Assessment

FIGURE 3 Airport development capital expenditures (in billions of dollars).



Source: ACI 1996 Capital Needs Survey, FAA Financial Assessment

Note: PFCs on a pay-as-you-go basis only.

FIGURE 4 Airport development funding sources (1990 to 1996).

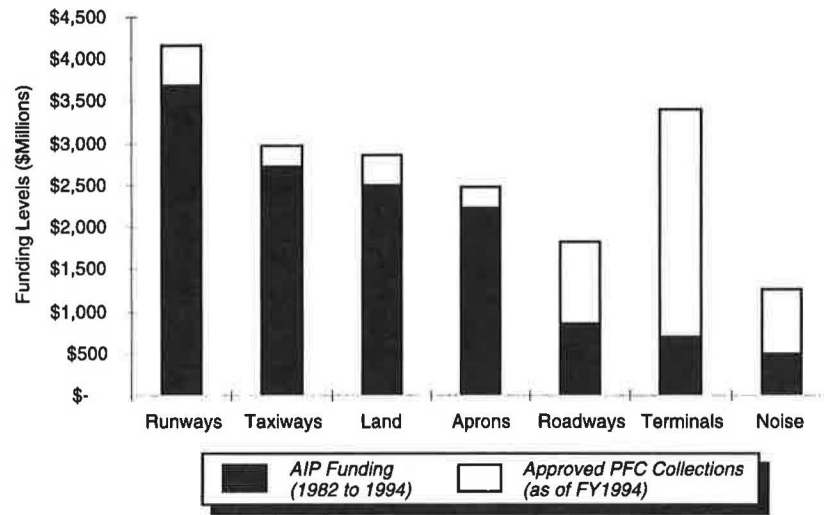
It represents the real total cost of what it takes to build the infrastructure for airports.

Figure 4 is a break-out by year of funding sources. There are no surprises here. AIP has been at a relatively steady amount over the historical period. PFCs are coming in. These are only pay-as-you-go PFCs. Bonds and other financing sources have made up the difference between those two relatively static amounts.

Figure 5 shows how AIP and PFC funds have been used. The distribution is not surprising. AIP has focused on

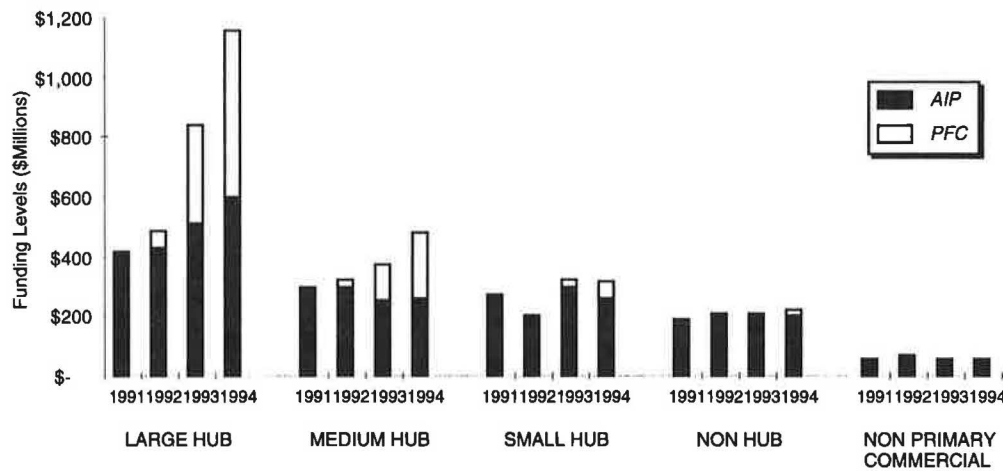
airfield projects because this is the emphasis of the FAA program approach to building system projects capacity within the system. And terminals and roadways and noise are funded from PFCs.

Airports have used PFCs to fund projects that enhance competition, especially where expansion of terminal facilities is needed. Airlines do not have a natural tendency to want to build the terminal facilities, and PFCs are an excellent way to pay for such projects and enhance competition at airports.



Source: GAO Report RCED95-225FS, July 1995

FIGURE 5 AIP and PFC funding by project type.



Source: GAO Report RCED95-225FS, July 1995

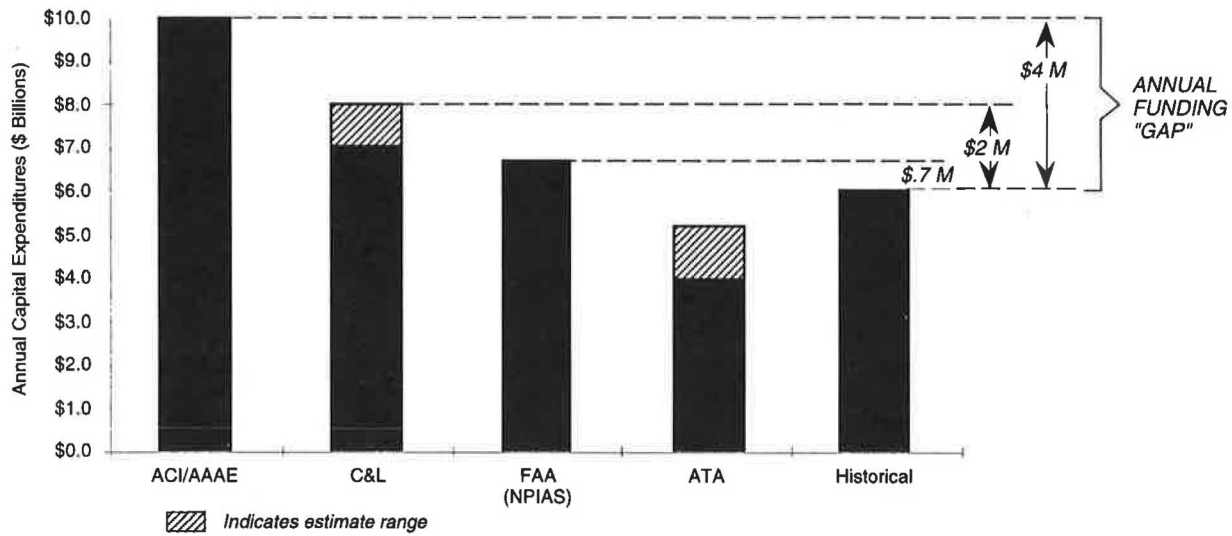
FIGURE 6 AIP and PFC funding by type of airport (1991 to 1995).

Breakouts of AIP and PFC funding by type of airport are presented in Figure 6. This gets back to the point I made at the outset. The search for a solution has to focus on what funding sources are available by type of airport. This cannot be ignored. Because of passenger volume, large hubs are increasingly relying on PFCs to fund airport development needs. AIP becomes much more important in funding projects at smaller airports. These airports play a valuable role in supporting the overall operation of the system. Small airports cannot survive without federal assistance.

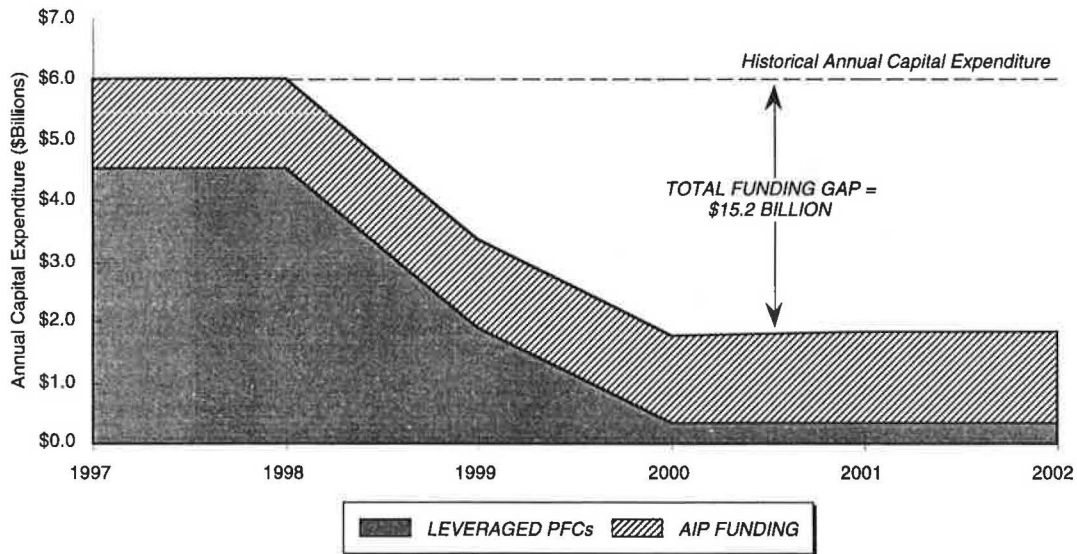
Future Capital Needs

The conventional method of estimating future airport capital needs is a bottom-up approach. Perhaps another way to look at the issue is to estimate what level of annual capital expenditures may be supported by existing funding sources.

Figure 7 compares the four estimates we have before us today: ACI/AAAE, Coopers & Lybrand, FAA, and ATA. On the right-hand side of the chart is a comparison of the historical funding level with these four estimates. The annual funding gaps range from \$0.7 billion to \$4 billion.



Sources: FAA Financial Assessment, GAO RCED-97-99, ACI 1996 Capital Needs Survey
 FIGURE 7 The funding gap: future estimates vs. historical capital expenditures.



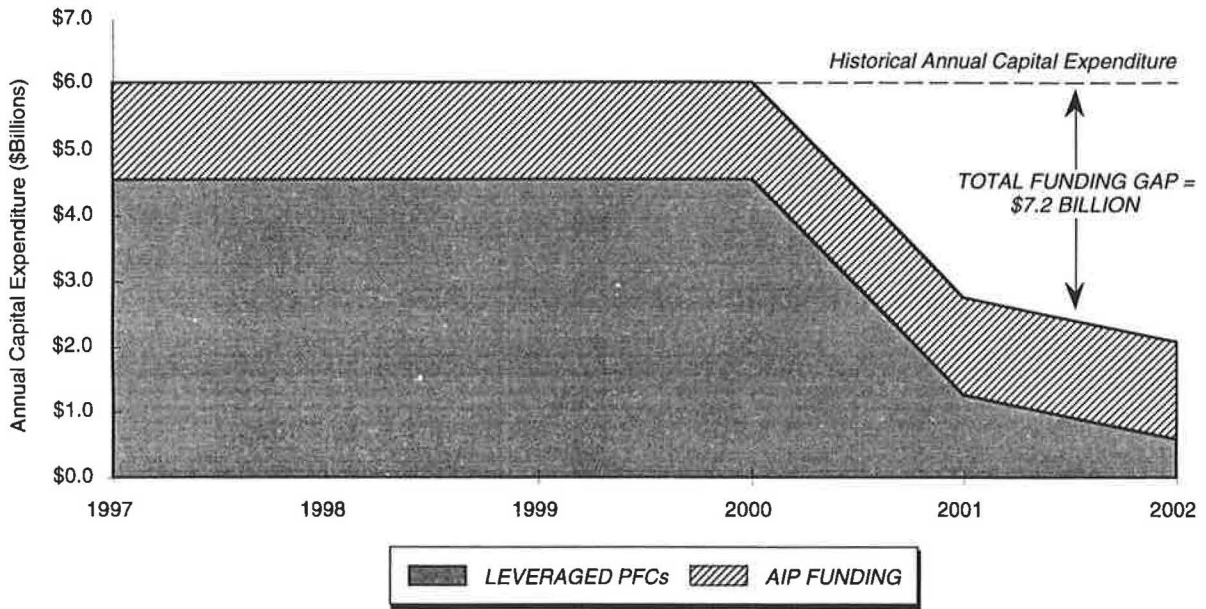
Assumes no coverage requirement on leveraged PFCs.
 Source: BA&H analysis

FIGURE 8 Estimated annual capital expenditures vs. funding sources.

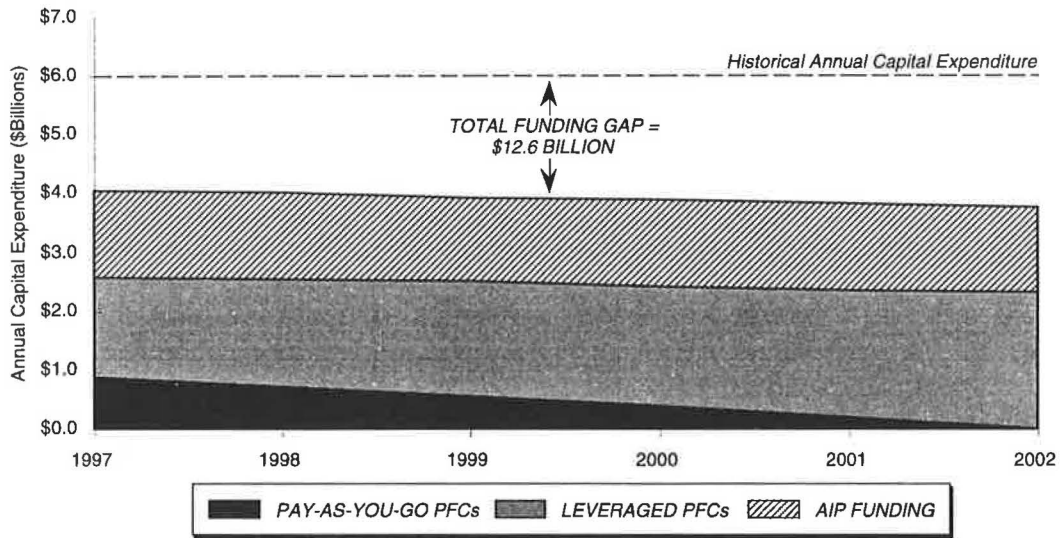
Airport Funding Approaches

Perhaps another way to look at the funding gap issue is to estimate what level of annual capital expenditures may be supported by existing funding sources. To do this, we have put together three scenarios. In essence we held AIP funding constant at the current level of \$1.46 billion and examined the

effect of increasing passenger facility charges from \$3 to \$5—comparing leveraging, pay as you go, and a combination of the two. We also examined the historical approach of filling the funding gap with bonds and estimated the effect of annual debt service costs on a global enplaned passenger basis to obtain a bench mark.



Assumes no coverage requirement on leveraged PFCs.
 Source: BA&H analysis
 FIGURE 9 Estimated annual capital expenditures vs. funding sources.

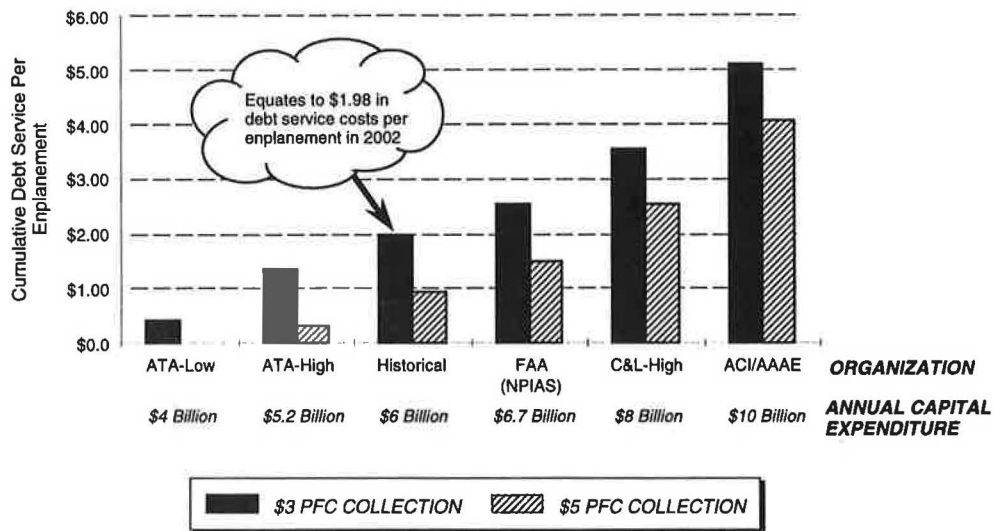


Assumes no coverage requirement on leveraged PFCs.
 Source: BA&H analysis
 FIGURE 10 Estimated annual capital expenditures vs. funding sources.

Figure 8 is the first of the scenarios, which involves leveraging annual PFC collections from 1997 to 2002. Basically it shows that by 1998 everything has been leveraged out. During 1999 PFC revenues taper off and after 2000 the only PFC revenues would come from incremental growth in air travel. In effect, this scenario mortgages the future and creates a net funding gap of \$15.2 billion for the six-year

period. PFC revenues in 1997-1998 provide a shot in the arm, but after that new sources of funding must be found.

Note that this scenario assumes no coverage requirement—a very unusual approach. Typically, capital markets have some requirement for coverage (about one and a half times the debt service) backed by the PFC revenue stream.



Note: Assumes all PFCs are leveraged.
 Source: BA&H Analysis

FIGURE 11 Estimated cumulative debt service charges per enplanement in 2002.

TABLE 1 SUMMARY OF CAPITAL ESTIMATES AND FUNDING SOURCES
 (In billions of dollars)

Organization/ Association	Total Estimated Capital Needs (1997 to 2002)	Total Estimated AIP Funds (1997 to 2002)	Leveraged PFCs (1997 to 2002)		Funding Gap (Funded by Bonds)		Debt Service Cost Per Enplanement ¹	
			\$3 PFC Collection Amount	\$5 PFC Collection Amount	\$3 PFC Collection Amount	\$5 PFC Collection Amount	\$3 PFC Collection Amount	\$5 PFC Collection Amount
ACI/AAAE	60.0	8.8	12.0	20.0	39.2	31.2	5.09	4.05
C&L-High	48.0	8.8	12.0	20.0	27.2	19.2	3.53	2.52
FAA (NPIAS)	40.2	8.8	12.0	20.0	19.4	11.4	2.52	1.48
Historical	36.0	8.8	12.0	20.0	15.2	7.2	1.98	0.94
ATA-High	31.2	8.8	12.0	20.0	10.4	2.4	1.35	0.32
ATA-Low	24.0	8.8	12.0	15.2	3.2	-	0.42	-

¹ Cumulative debt service costs on a cost per enplaned passenger basis in 2002.
 AIP Funds assumed constant per year (\$1.46 billion).
 Each Organization/Association's capital estimates assumed to be for six year period (1997 to 2002).
 All figures in billions of dollars except cost per enplanement figures.
 Source: BA&H Analysis

The second scenario assumes increasing PFCs to \$5 and leveraging PFC collections for the years 1997 to 2002. (Figure 9) This would provide steady PFC funding at the level of \$4.5 billion per year through to 2000. After then PFC funds would fall off sharply, with the only revenue coming from increased traffic growth. In comparison with the first scenario, the second scenario provides two more years of

funding at the level of \$4.5 billion, but there would still be the downstream problem of severely inadequate funding beyond 2002. The total funding gap for 2000 plus 2002 would be \$7.2 billion.

The third scenario combines pay-as-you-go PFC support with leveraged PFC. (Figure 10) this approach takes advantage of pay-as-you-go at the outset and then phases in

more and more leveraged PFCs until 2002, when all PFC revenues are leveraged. After 2002 there would be no further slack in the system, and the total funding gap would be \$12.6 billion.

This leads to the conclusion that an increase in PFCs from \$3 to \$5 is not going to solve the problem. All three of the scenarios analyzed by us indicate limited capability beyond 2002 to finance airport development.

The only tested and reliable alternative is to turn to the capital markets and raise funds through the sale of airport revenue bonds, municipal bonds, general obligation bonds, or other such instruments. Airports have access to one of the lowest-cost forms of capital in today's financial markets—tax-exempt bonds.

Figure 11 compares the historical level of cumulative debt service per enplanement to what would be required to fill the funding gaps estimated in recent studies by ATA, ACI/AAAE, FAA, and Coopers and Lybrand.

Table 1 is a summary of capital needs estimates, funding sources, and the collection amounts per enplanement necessary to fill funding gaps.

*David L. Lewis
Hickling Lewis Brod, Inc.*

I would like to offer a perspective on what I have heard today, in light of opportunities I have had over the past two years to look fairly broadly at the way airport finance works in the United States.

Those opportunities have arisen from diverse sources. One was between the Los Angeles International Airport and the airlines over the proposed sharp increase in landing fees. FAA, at that time, took a good look at the way things work and FAA's role in the finance process.

And more recently, I have been working very closely with the Canadian government. David Plavin's presentation earlier today alluded to the Canadian experience in creating a commercialized aviation system, both for airports and air traffic control. These examples provide insights into how airport and aviation system financing works in general.

What I find is that the situation existing today is a rather healthy base upon which we can devise the kind of innovations that we are looking for at this meeting.

What I see is a selfregulating system in which the FAA has found it necessary to enter as a traditional third party utility regulator to equilibrate the market power of airports and airlines. This system is a diamond with four corners—airports at one, airlines at another, credit markets at the third. And the Federal Government to complete the picture.

Airports and airlines are in partnership when it comes to capital decisions. This partnership is not entirely equal,

depending on the type of agreement (residual-cost or compensatory) between airports and the airlines that provide services. At residual-cost airports airlines tend to have the upper hand in control of capital investment. At airports with compensatory agreements and where there are healthy partnerships at work, the balance is more nearly equal.

Credit markets play an important role. They do not just lend money. They discipline both the airports (the borrower) and the airlines to ensure that borrowed funds can be repaid. That discipline is very powerful in ensuring that unworthy projects or projects that are ahead of their time are not financed unduly.

The Federal Government seems to play a role that one might describe as internalizing the benefits that neither the credit markets nor the airlines (nor perhaps the airports) recognize in the form of long-term requirements that others are less inclined to take into account.

We do have a fairly health partnership and a fairly healthy financing mechanism at work today. The Canadians have gone a step further by creating NAV Canada, a commercialized air traffic control system, rather than giving airlines veto power over proposed new capital investments. Control has been put squarely in the hands of the provider. That is not to say that the airline side of the equation is left without a control mechanism. Even though the investment decision making process is largely in the hands of the aviation provider, it is nevertheless designed to accommodate both benefits to itself and its airlines customers.

Airlines have higher discount rates than aviation providers. This is not to say that one is right, and one is wrong (or that one is myopic, and one is not). Airlines, because of the business they are in, take a shorter view than airports and aviation infrastructure providers.

What we see in the case of NAV Canada is an attempt to combine the two types of decision making. It is not unlike a consumer products firm suddenly realizing that it has to make decisions not only on behalf of its shareholders, but on behalf of its customers as well. This is a combination in which control of infrastructure investment is shifting to the infrastructure provider. But at the same time, recognition of the business priorities of the customer is being folded into a decision process.

In the innovative financing study that we conducted on behalf of FAA for presentation to Congress, we found evidence that the market is at work, not just for larger primary airports, but for the small airport sector as well—even in the very smallest. We found small airports responding to changes in the costs of capital. We found them using innovative techniques. There is an extraordinary degree of innovation in the way airports of all sizes take their needs to the market. There are partnerships, double- and triple-barrel forms of securitization, creative use of letters of credit, bond insurance, and so on.

There is a lot of experience with creative financing and innovation. It is being created by, within, and for the airport world. This is not to say that there is not room for genuine improvement and that we do not have gaps. We do have a baseline from which to begin. Partnerships and institutional arrangements for control can be devised or refined and responsibilities can be reassigned in light of circumstances.

I would like to offer my perspective on a matter that has been raised by several other speakers: the question of who pays. There is no single answer. Who pays and how much depend on the size and type of airport.

In the case of small airports, the answer is fairly obvious. The Federal Government provides most of the funds for capital improvements, with small matching contributions from state aviation agencies and local governments. Without this support only a few general aviation facilities will be able to survive.

On the other hand, we have heard from some speakers today that, by hook or by crook, small airports are gaining access to the debt markets. How does one reconcile these opposing views? One way of looking at it might be to recognize that, while some small airports have access to money markets, they are not by a long shot, able to cover all of their projected needs or demands or cravings or what other euphemism one might choose.

How can we latch onto this ability—however small—of small airports to borrow? One way might be to relax the fixed federal share and to say that the federal share is up to a certain amount. When one does that, I suspect we might see some smaller airports coming forward and saying to FAA, “If you accelerate the rate at which AIP funds are provided, we will come up with a larger match as a quid pro quo”. To the extent that these airports borrow and show willingness to take some risk, FAA would be getting a signal that maybe the project under consideration has more benefits relative to costs than another project where the desire or the willingness to put some additional cash on the table (or take some other form of risk) is not apparent.

The relationship between the Federal Government and smaller airports needs to change. We can do so in a productive way that captures the ability of smaller airports to

borrow or to raise more, one way or another, than they have traditionally been able to. This could prove to be a very effective way to sort out needs from desires.

In the case of large airports, who pays is not the right question. We know who pays. David Plavin got it right when he said the question is who decides who pays. Therein lies one of the major policy dilemmas as we go forward. Right now, the decision of who pays is in a very carefully worked-out model with a rather delicate balance between airlines and airports on the question of what gets built and when.

We have also heard today the seemingly contradictory remark that there is a lot of money available. If so, why is the airport and airline partnership not creating a demand for more of that money? The answer is that the self-regulating process creates a level of investment that is driven by capacity requirements, not available funds.

By convention, we will see airports making more rapid, larger, and more immediate decisions to spend more money that is available.

The question for the Federal Government is whether greater funding would disturb the self-regulating process, the mechanisms by which the airline industry is now, in conjunction with the credit markets, able to discipline airports so that they do not go into wildly speculative ventures? The answer is, only if some shifts in the power structure of the existing self-regulating model were to occur.

But even then, some shift in control, which would liberate the demand for capital, could work without forcing the Federal Government to take on more of a utility-style regulatory role because of the monopoly power problem it could theoretically create.

Some shift in decision-making power is possible. I have been working intimately within the Canadian framework for two or three years. While I am the first to recognize the fundamental importance of the self-regulating balance that exists now, I think there is some potential to shift that balance. One result of this could be to encourage large and medium-sized airports in coming to the financial market quickly and more aggressively.